

weaken unless the US economy strengthens, Japanese stock markets will not rally unless the yen weakens, and Abenomics will not succeed unless the yen weakens and the stock markets rally. Fortunately, we believe the Abe administration will continuously benefit from a robust US upswing in 2014.

With the USD/JPY having languished for nearly half a year, the markets had come to anticipate a rate of only around ¥105 for end-2014, a considerably cautious view. Market forecasts tend to be simply current picture = present rate + recent market momentum.

The rebound in the USD/JPY to ¥100 is spurring an upturn in the average medium-term market forecast. Once the markets approach the May high of ¥103.74, a 3-6 month forecast of ¥110 will no longer seem so far fetched. The markets have a basic propensity to veer suddenly and non-contiguously from the average forecast.

Of course, there remain lingering doubts over whether the 200,000 growth in non-farm payrolls in October gives a true picture of US labor markets at a time when government institutions were temporarily shut down. For prospects for a further gain in the USD/JPY, we should keep watching November US payroll data, consumer spending in the Christmas shopping season, and the December FOMC meeting.

For now, we may need to wait patiently for further stimulus related to these factors for a USD/JPY rise. We believe a self-sustaining US recovery will add to the downward pressure on the yen stemming (as an auxiliary effect) from the BoJ's easing stance, and expect the USD/JPY to reach ¥115 by end-2014.

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Jeffrey -

We know you're bearish yen vs. US dollar. As you've seen, there has been recent momentum in the JPY sell-off vs the USD since last Thursday's breakdown to a 97 handle. USDJPY is presently ~100.2. An at-the-money 1yr USDCJPYp presently costs ~4.6%. Instead of an out right, consider a zero-cost version